

Indian and Northern Affairs Canada

**Audit of the Elementary and Secondary
Education Program**

**Prepared by:
Audit and Assurance Services Branch**

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Initialisms and Abbreviations

AES	Audit and Evaluation Sector
AFA	Alternative Funding Arrangement
CFA	Comprehensive Funding Arrangement
CFNFA	Canada/First Nations Funding Agreement
ESDPP	Education and Social Development Programs and Partnerships Sector
FSO	Funding Services Officer
FTP	Flexible Transfer Payment
HQ	Headquarters
INAC	Indian and Northern Affairs Canada
NRS	Nominal Roll System
OAG	Office of the Auditor General
PCES	Parental and Community Engagement Strategy
P-TES	Provincial-Territorial Educational Services Report
RMP	Resource Management Directorate
SSS	Student Support Services
Ts&Cs	Terms and Conditions
TBS	Treasury Board of Canada Secretariat
TPO	Third Party Organization
TRR	Teacher Recruitment and Retention
YERH	Year-End Reporting Handbook for First Nations, Tribal Councils and Political Organizations

Executive Summary

Introduction

The objective of Indian and Northern Affairs Canada's (INAC) Elementary and Secondary Education Program (K-12 Program) is to provide eligible students living on First Nations' reserves with elementary and secondary education programs comparable to those required in provincial schools by the statutes, regulations or policies of the province in which the reserve is located. Expenditures for elementary and secondary education are among the largest departmental allocations to a single program, with INAC disbursing \$995.8M in 2007/08 under the K-12 Program.

The K-12 Program is managed and coordinated at the national level by the Education Branch of the Education and Social Development Programs and Partnerships Sector, while the Program is delivered at the regional level. As per the Program Terms and Conditions (Ts&Cs), there are five main components to the K-12 Program (with disbursements of \$943.7M in 2007/08) as follows:

Instructional Services in Band-Operated Schools: This component provides funding for instructional services in band-operated schools on reserves. Eligible expenditures include, but are not limited to, salaries for school professional staff, low cost special education, paraprofessional services, services for Aboriginal and official languages instruction, school administration, and monitoring and evaluation.

Instructional Services in Federal Schools: This component provides funding for instructional services in schools operated by INAC on reserves. Eligible expenditures under this component are similar to the expenditures allowed for band-operated schools, except for the salaries and benefits of federal employees (usually school professional staff) which are paid directly by INAC.

Instructional Services in Provincial Schools: This component provides funding for students living on reserves, but attending provincial schools. Eligible expenditures under this component include tuition charges established by the provincial school authority.

Student Support Services: This component provides funding for certain student support services, such as accommodation allowances for students attending school outside their home communities, daily transportation, and the incidental educational expenditures incurred by students, including books, supplies, and specialized clothing and equipment.

School Board-Type Services: This component provides funding for certain school board type services, such as instructional materials, professional services, development of curriculum and teaching materials, and provision of advice and assistance to First Nations and band administrations.

The Program Ts&Cs also include three “targeted” program components designed to support the main components of the K-12 Program. They include New Paths for Education, Teacher Recruitment and Retention, and Parental and Community Engagement Strategy.

Disbursements under these targeted program components totaled \$52.1M in 2007/08.

In accordance with the *2008-2011 Internal Audit Plan*, an audit of the K-12 Program was conducted in INAC regions and at headquarters (HQ) between December 2008 and April 2009.

Objective and Scope

The objective of the audit was to provide assurance on the adequacy and effectiveness of the management control framework of the K-12 Program and on the regional controls for administering recipient contributions to ensure compliance with applicable authorities and policy frameworks.

At the level of the management of the K-12 Program, the scope of the audit examined program design and approval, program implementation, and program monitoring and reporting. In regard to the regional controls for administering recipient contributions, the audit examined recipient and project eligibility, the development of funding agreements, and recipient monitoring and reporting.

During the conduct phase of the audit, the activities in four regional offices were examined in detail: Ontario, Manitoba, Alberta and British Columbia. Videoconferences were also conducted, during the planning and risk assessment phase, with the Saskatchewan and Québec regional offices.

The audit was conducted in accordance with the requirements of the Treasury Board of Canada Secretariat (TBS) *Policy on Internal Audit* and following the Institute of Internal Auditors’ Standards for the Professional Practice of Internal Auditing.

Conclusions

Internal Audit is unable to provide assurance that the Program’s management control framework is adequate and effective in ensuring the achievement of Program objectives, due to limitations in existing performance measures, the guidance and oversight provided by HQ, and weaknesses in the implementation of the Program at the regional level.

In terms of regional controls for administering recipient contributions, while established procedures are in place for obtaining and reviewing performance and financial reports, Internal Audit concludes that monitoring and compliance auditing activities are not sufficiently robust to provide assurance that there is consistent compliance with applicable legislation and policy and Program frameworks.

Internal Audit is of the opinion that:

- Appropriate performance measures, results indicators and targets are not currently in place to measure progress toward achievement of the stated program objective;
- Regions are not ensuring that First Nation recipients have entered into and are maintaining education tuition agreements with provincial school boards;
- Some funding agreements with provincial education authorities lack standard INAC and TBS *Policy on Transfer Payment (2000)* agreement components;
- Limited monitoring and compliance related activities are being performed by regional offices to ensure adherence with Program and funding agreement Ts&Cs; and
- Recipient reporting, along with the limited compliance work performed by regional staff, does not provide adequate assurance that targeted component funds have been spent for the intended purposes.

Recommendations

The audit report provides a number of recommendations intended to address the audit findings. Among the recommendations provided in the report, the Director General, Education Branch should:

- Enhance the Program's existing performance measurement framework to ensure it properly measures and assesses progress toward achievement of the Program objective of comparability of education programs in band-operated schools with those of provincial schools.
- Assess, in conjunction with Regional Directors General, the adequacy and completeness of regional processes for ensuring that local education agreements/tuition agreements are in place between First Nation recipients and provincial school boards and that provincial tuition fee disbursements to recipients are appropriate. Based on this assessment, an action plan should be developed that identifies changes and corrective actions required, how and by whom action will be taken, and time frames for completion.
- Establish, in conjunction with Regional Directors General and the Transfer Payments Directorate, an action plan and timeline for instituting appropriate funding agreements between INAC and provincial education authorities.
- Determine, in conjunction with Regional Directors General, the appropriate and essential compliance and monitoring requirements of the Program and establish an acceptable approach for meeting these requirements. Consideration should be given to the appropriate level of staffing required and the need to update Program documentation to reflect any changes made to the requirements.

- Establish, in conjunction with Regional Directors General, enhanced activity and financial reporting review procedures, to ensure that complete information is received from recipients (such procedures would be expected of all TPOs administering targeted Program components as well). Consideration should be given to establishing a risk based approach to conducting compliance review activities to help ensure that recipients are using targeted Program component funds for their intended purposes.

1.0 Statement of Assurance

We have completed the audit of the Elementary and Secondary Education Program (“the K-12 Program” or “the Program”) as managed by the Education Branch of the Education and Social Development Programs and Partnerships Sector (ESDPP) and delivered by the regional offices. The objective of the audit was to provide assurance on the adequacy and effectiveness of the management control framework of the Program and on the regional controls for administering recipient contributions to ensure compliance with applicable authorities and policy frameworks.

The audit was conducted in accordance with the requirements of the Treasury Board of Canada Secretariat (TBS) *Policy on Internal Audit* and followed the Institute of Internal Auditors’ Standards for the Professional Practice of Internal Auditing.

The audit team assessed the management control framework against selected criteria from the Grants and Contributions Audit Criteria that were established by the Audit and Evaluation Sector (AES) in 2007 through consultation with Indian and Northern Affairs Canada (INAC) managers across the department and through consideration of other grants and contributions control frameworks.

In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations, as they existed at the time of the audit and against the audit criteria. It should be noted that the conclusions are only applicable for the areas examined.

2.0 Introduction

The objective of INAC's K-12 Program is to provide eligible students living on First Nations' reserves with elementary and secondary education programs comparable to those required in provincial schools by the statutes, regulations or policies of the province in which the reserve is located. As per the K-12 Program Terms and Conditions (Ts&Cs), it is expected that eligible students in First Nations will receive a comparable education to other Canadians within the same province of residence, with similar educational outcomes to other Canadians, and with attendant socio-economic benefits to themselves, their communities and Canada.

Elementary and secondary education is one of the essential services funded by INAC for First Nation communities. Expenditures for elementary and secondary education are among the largest departmental allocations to a single program, with INAC disbursing approximately \$995.8M in 2007/08 under the K-12 Program.

The K-12 Program is managed and coordinated at the national level by the Education Branch of ESDPP, while the Program is delivered at the regional level. As per the Program Ts&Cs, there are five main components to the K-12 Program (with disbursements of \$943.7M in 2007/08) as follows:

Instructional Services in Band-Operated Schools: This component provides funding for instructional services in band-operated schools on reserves. Eligible expenditures include, but are not limited to, salaries for school professional staff, low cost special education, paraprofessional services, services for Aboriginal and official languages instruction, school administration, and monitoring and evaluation.

Instructional Services in Federal Schools: This component provides funding for instructional services in schools operated by INAC on reserves. Eligible expenditures under this component are similar to the expenditures allowed for band-operated schools, except for the salaries and benefits of federal employees (usually school professional staff) which are paid directly by INAC.

Instructional Services in Provincial Schools: This component provides funding for students living on reserves, but attending provincial schools. Eligible expenditures under this component include tuition charges established by the provincial school authority.

Student Support Services: This component provides funding for certain student support services, such as accommodation allowances for students attending school outside their home communities, daily transportation, and the incidental educational expenditures incurred by students, including books, supplies, and specialized clothing and equipment.

School Board-Type Services: This component provides funding for certain school board type services, such as instructional materials, professional services, development of curriculum and teaching materials, and provision of advice and assistance to First Nations and band administrations.

The Program Ts&Cs also include three “targeted” program components designed to support the main components of the K-12 Program. These components include New Paths for Education (New Paths), designed to improve the quality of education in band-operated schools; Teacher Recruitment and Retention (TRR), designed to assist band-operated schools in recruiting and retaining qualified teachers and educators; and Parental and Community Engagement Strategy (PCES), designed to raise the awareness of parents and community members of their valuable role in the education of their children. Disbursements under these targeted program components totaled \$42.4M, \$5.0M, and \$4.7M respectively in 2007/08.

In accordance with the *2008-2011 Internal Audit Plan*, an audit of the K-12 Program was conducted in INAC regions and at headquarters (HQ) between December 2008 and April 2009.

3.0 Objective

The objective of the audit was to obtain reasonable assurance:

- as to the adequacy and effectiveness of the management control framework of the K-12 Program and
- that regional controls for administering recipient contributions are effective at ensuring compliance with applicable authorities and policy frameworks including both INAC and the Government of Canada.

4.0 Scope

At the level of the management of the Program, the scope of the audit examined:

- program design and approval
- program implementation and
- program monitoring and reporting.

In regard to the regional controls for administering recipient contributions, the audit examined:

- evaluation and documentation of recipient and project eligibility
- development of funding agreements and
- recipient monitoring and reporting.

During the planning and risk assessment phase of the audit, Program risks were identified and assessed, and a strategy and approach was identified for the conduct phase of the audit. Site visits were conducted at the Manitoba and Alberta regional offices and videoconferences were conducted with the Québec, Ontario, Saskatchewan, and British Columbia regional offices.

During the conduct phase of the audit, Program activities at regional offices were examined in detail, in relation to established audit criteria and a defined audit approach as detailed in section 5.0. Site visits were conducted in Ontario, Manitoba, Alberta and British Columbia that focused on operational activities from the 2007/08 fiscal year.

Program disbursements were noted in the Yukon and headquarters' regions, however these regions were excluded from the audit due to the limited Program funds disbursed and administered in these regions. Instructional Services in Federal Schools was also excluded from the audit (subsequent to the planning and risk assessment phase) due to the low level of funds disbursed under the component, the fact that federal schools operate in only two regions, and the fact that the audit approach required for this component was not consistent with the other Program components.

Finally, the scope of the audit in regard to the targeted components of the K-12 Program (New Paths, TRR, and PCES) was limited to their regional administration and compliance with INAC and TBS policy due to the low dollar amounts disbursed under these components relative to the Program's main components.

5.0 Approach and Methodology

The internal audit was conducted in accordance with the requirements of the TBS *Policy on Internal Audit* and followed the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinions provided and contained in this report.

Audit criteria were selected from the Grants and Contributions Audit Criteria that were established by the Audit and Evaluation Sector (AES) in 2007, based on information gathered during the planning and risk assessment phase conducted by the audit team in December 2008 and January 2009. The criteria served as the basis for developing the audit approach and detailed audit program for the conduct phase. The audit criteria for the main components of the K-12 Program are provided at Annex A. The audit criteria for the targeted components of the K-12 Program are provided at Annex B.

The principal audit techniques used included:

- *Documentation Review* – the documentation that was subject to examination included, but was not limited to, policies, directives, frameworks, and procedures relevant to the Program, as well as past audit and evaluation reports

- *Recipient File Review* - file documentation was examined for a sample of 48 recipients in regard to the main components of the Program and for a sample of between 16 and 19 recipients in regard to each of the targeted components of the Program. Files were selected in all four regions, with reviews conducted using audit checklists developed to assess compliance with relevant audit criteria, Program Ts&Cs, and the TBS *Policy on Transfer Payments (2000)*
- *Data Analysis* – financial information in regard to all payments issued under the K-12 Program in fiscal 2007/08 was obtained from INAC’s OASIS financial system. These data were analyzed to support audit fieldwork and audit sampling, and
- *Interviews* – interviews were conducted with management and personnel responsible for Program delivery at HQ, in each of the four regions visited, and in the Saskatchewan and Quebec regions through videoconference. Personnel were also interviewed in other HQ areas including those within Corporate Information Management Directorate and Transfer Payments and Financial Policy Directorate. Interview guides were developed for interviews conducted, taking into consideration the objective of the audit and the audit criteria developed.

Audit fieldwork was conducted in the regions and at HQ between February and April 2009.

6.0 Conclusions

Internal Audit is unable to provide assurance that the Program’s management control framework is adequate and effective in ensuring the achievement of Program objectives, due to limitations in existing performance measures, the guidance and oversight provided by HQ, and weaknesses in the implementation of the Program at the regional level.

In terms of regional controls for administering recipient contributions, while established procedures are in place for obtaining and reviewing performance and financial reports, Internal Audit concludes that monitoring and compliance auditing activities are not sufficiently robust to provide assurance that there is consistent compliance with applicable legislation and policy and Program frameworks.

7.0 Observations and Recommendations

The observations of the audit are provided in the four sections of the report that follow. Sections 7.1 to 7.3 provide audit observations in regard to the main components of the K-12 Program, while section 7.4 provides observations with respect to the targeted components of the K-12 Program. The recommendations of the audit are provided at the end of each sub-section of the report.

7.1 Program and Recipient Funding

The allocation of program funding consists of the distribution of program funds from HQ to the regions and from the regions to recipients. The allocation of program funding is generally designed to ensure that regions and recipients have fair and equitable access to the funds allocated to a given program.

7.1.1 Allocation of Program Funds

The current methodology for allocating Program funds to the regions does not take into consideration the impact of annual increases in provincial tuition fees

The Resource Management Directorate (RMD) at HQ is responsible for determining the amount of Program funding to be allocated to each region. Since 1998/99, a global funding methodology has been employed that allocates, as a block, core budget funds from HQ to the regions on an annual basis. Annual core budget increases from RMD (currently equivalent to 2% annually) are allocated to each region in proportion to their prior year's budget.

With the exception of Enhanced Teachers Salaries and the targeted Program components, regions are expected to fund all components of the K-12 Program from the annual core budget they receive. No breakdown of core budget funds, by program, is provided as part of the allocation process, giving regions the authority to decide on the amount of funding to be allocated to each program. Notwithstanding this authority, regions attempt to ensure consistency in program funding levels from year to year.

The allocation of K-12 Program funds from the regions to recipients is, for the most part, determined based on established funding formulas. For the largest two components of the Program, Instructional Services in Band-Operated Schools and Instructional Services in Provincial Schools, funding is determined by multiplying student enrollment levels (volume) by established per student funding rates (price). While regional offices determine the annual per student funding rate for band-operated school funding, annual per student funding rates for those students attending provincial schools are determined by the provincial school boards that the students attend. Most often, these annual 'tuition rates' are established by the school boards consistent with the per student rate they receive from the provincial government. At present, approximately 36% of all students funded under the K-12 Program attend provincial schools.

The global funding methodology currently in place does not take into consideration the impact of annual increases in provincial tuition fees that are being experienced by regional offices. While specific data are not available on the annual increases in tuition fees charged by provincial school boards, these increases can be reasonably estimated from the annual increases in elementary and secondary education spending by the provinces. Over the five year period ended 2005/06, per student spending on elementary

and secondary education has increased by 23.1% nationally. Hence, regional budget increases of 2% per year are not keeping pace with the increases in tuition fees that regions are required to pay for students attending provincial schools. Moreover, INAC regional offices are impacted disproportionately in regard to the provincial tuition rate increases. Over the five year period ended 2005/06, student spending increases have varied dramatically by province, ranging from a low of 14.6% to a high of 33.9%. Notwithstanding these variations, annual core budget increases to regional offices have remained proportionate (at 2% of prior year's budget).

In its audit report of 2000, the Office of the Auditor General of Canada (OAG) observed that the method used to allocate funds from HQ to the regions was based largely on information "that was developed at least 15 years ago" and that the department had not updated its analysis to determine whether its allocation practices adequately reflected the actual education needs of the regions or whether allocation practices were reasonable under the circumstances. This observation is consistent with the observation of the current audit.

Internal Audit is of the view that the global allocation methodology currently employed by the department does not ensure that regional offices, on an annual basis, are equally able to address the impact of rising provincial tuition rates. These increases impact the funds available within regions to support other components of the K-12 Program and other programs.

Funding formulas are not being used consistently by regional offices to help ensure equitable allocation of Student Support Services to recipients

One of the components of the K-12 Program is Student Support Services (SSS). Disbursements to recipients for SSS totaled \$89.0M in 2007/08. Within the OASIS system, funding for SSS is disbursed as six separate activities including, but not limited to, student transportation, student accommodations, guidance and counseling, and financial assistance allowance. While the Program Ts&Cs do not specifically state that funding formulas are to be established for each activity funded under the Program, they do state that "the level of overall funding to recipients will be determined based on the number of full-time-equivalent students on the Nominal Roll".

Funding formulas are not being used consistently in all regional offices to allocate SSS funds to recipients. In each of the regions visited, at least one activity within SSS was funded based on historical allocation levels, despite the fact that identifiable cost drivers (such as student enrollment, student usage, fuel prices) existed that could be used to support formula based funding and the same SSS activities was formula funded in another region. Regional staff reported that a formula based funding approach was not being employed for all activities within SSS due to a lack of available staff to administer and maintain the formula based funding approach.

Internal Audit is of the view that the use of historical level funding for the distribution of activities within SSS, rather than formula funding based on appropriate cost drivers, could result in inequitable allocation of Program funds to recipients within a region.

Recommendation:

1. The Director General, Education Branch should, in conjunction with Regional Directors General and Resource Management Directorate, assess the funding methodologies currently in place for the various Program components and the impact the global allocation methodology has on the capacity of regional offices to fund the Program.

7.1.2 Funding Agreements

Some funding agreements with provincial education authorities lack standard INAC and TBS Policy on Transfer Payment agreement components

While the majority of K-12 Program funding is disbursed to First Nations organizations under annual Comprehensive Funding Agreements (CFA) or five-year Canada/First Nations Funding Agreements (CFNFA), the Program Ts&Cs allow INAC to enter into funding agreements directly with provincial education authorities to fund the cost of First Nations students living on reserve and attending provincial schools. Direct funding to provincial education authorities in the four regions visited totaled \$58.9M in 2007/08.

The funding agreements entered into with provincial education authorities in one region were more than 30 years ago, while the funding agreement with a provincial education authority in another region was close to five years old. In both regions, the agreements lacked many of the standard sections of a CFA or CFNFA, including: clear terms and conditions, a defined accountability framework, defined funding levels and monthly expenditure plans, and standard delivery and reporting requirements. In the remaining two regions, funding agreements with provincial education authorities took the form of a standard CFA arrangement.

The funding agreements in the aforementioned two regions also failed to include many of the requirements of a typical contribution agreement as provided for in the *TBS Policy on Transfer Payments (2000)*. The TBS policy states that the basic provisions of a contribution agreement should include, but not be limited to: the purpose of the agreement and the expected results to be achieved; the financial and non-financial conditions attached to the contribution, along with the consequences of not adhering to these conditions; a requirement for the recipient to repay overpayments, unexpected balances and disallowed expenses and a declaration that such amounts constitute debt to the Crown; provisions for the department to terminate the agreement if the objectives are not being met; the right to audit the agreement; and clear and agreed upon expectations

and roles and responsibilities of the parties. These requirements were lacking in the agreements examined in these two regions.

Internal Audit is of the view that, given the magnitude of Program funding in question, funding agreements that lack terms and conditions and standard contribution agreement requirements contravene TBS policy and increase the risk of contractual disagreements and funding disputes. Certain regions have been successful in entering into CFAs with provincial education authorities.

Recommendations:

2. The Director General, Education Branch should, in conjunction with Regional Directors General and the Transfer Payments Directorate, establish an action plan and timeline for instituting appropriate funding agreements between INAC and provincial education authorities.

7.2 Program Implementation and Monitoring

Program implementation includes the policies and procedures, resources, systems and supporting tools developed at the program level to facilitate consistent implementation of a program across all regions and to promote the achievement of program objectives. Program monitoring consists of sufficient review and oversight, conducted on a timely basis by program management, to promote the achievement of program objectives and to identify issues for resolution.

7.2.1 Program Implementation

Regions are not ensuring that First Nation recipients have entered into and are maintaining education tuition agreements with provincial school boards

The Program Ts&Cs state that where a First Nation is receiving funding for students living on reserve and attending a provincial school, the First Nation “shall enter into a Local Education Agreement/Tuition Agreement with the applicable provincial school district or board operating the respective provincial school and agree to maintain the Local Education Agreement/Tuition Agreement in good standing starting in 2006-2007”. The delivery standards of funding agreements (CFAs and CFNFAs) with First Nation recipients also require that tuition agreements be established. Furthermore, the delivery standards require that tuition agreements set out the obligations of each party with respect to the provision of services. Finally, Education Branch’s *Compliance Directive*, established in October 2005 for CFA arrangements only, requires that regional offices conduct certain review activities in regard to tuition agreements.

In three of the four regions visited, no established process was in place to ensure that tuition agreements existed between First Nation recipients and school boards and that agreements remained current. While one of these regions did have copies of certain tuition agreements, a process of obtaining agreements and ensuring they remained current was not being maintained. In another of these regions, where only seven First Nations received funding for students attending provincial schools, regional staff advised that these First Nations were relying on the tuition-like agreements that the region had with those same school boards for other First Nations' students.

The audit observations in regard to tuition agreements are consistent with those reported in the 2000 and 2004 Audit Reports of the OAG, suggesting that regional offices have made little progress over the past years in ensuring that tuition agreements are established. Education staff interviewed in the regions suggested that in many instances tuition agreements between First Nation organizations and their school boards simply do not exist. They cited a lack of capacity on the part of some First Nations to negotiate tuition agreements and a lack of willingness on the part of some school boards to enter into such agreements. In the one region where tuition agreements were being regularly tracked, a sample of the agreements reviewed noted that the obligations of First Nations and school boards were well defined and that meaningful objectives had been established, such as the enhancement of graduation rates to help ensure First Nation students gain meaningful employment after graduation and/or entrance into a post-secondary institution.

Internal Audit is of the view that tuition agreements are necessary to ensure that financial terms and conditions between First Nations and school boards are well defined and that the obligations and roles and responsibilities of both parties are clearly understood. Where tuition agreements are not present, there is an increased risk of financial dispute and the provision of inadequate educational services to First Nation students.

The school evaluation process lacks consistency and direction, targeted funds are being used to fund evaluations, and no monitoring of the implementation of recommendations is taking place

The *National Program Guidelines* for the K-12 Program require that an independent evaluation of each band-operated school be undertaken every five years. The guidelines state that school evaluations must include, at a minimum, a review of school curriculum, an assessment of instructional quality and standards, and a review to determine whether community and school objectives are being met. In addition, the guidelines state that Chiefs and Councils are to ensure that a plan is in place for the implementation of the recommendations of the evaluation report and that the plan is updated each year. Finally, the Education Branch's *Compliance Directive* from 2005 states that the department, in co-operation with First Nations, "should ensure that school evaluations are completed and that recommendations are addressed within a reasonable time."

None of the regions visited during the conduct phase of the audit met the requirement that all band-operated schools be evaluated every five years. While most regions are tracking the school evaluations that have been funded and completed, as well as the schools proposed for evaluation in upcoming years, the completion of school evaluations is often subject to delays, such that planned annual evaluation levels are not realized.

While Program guidelines and directives define the minimum requirements of school evaluations, each regional office has developed its own guidelines or information package in support of evaluation requirements. Although the requirement for school evaluations was established at the national level, no national guidelines exist that define the evaluation process, its specific requirements, and a standard reporting format.

No formal explanation of the overall purpose of school evaluations is included in Program documentation. While Program guidelines and directives imply that school evaluations are to support First Nations in the identification of areas of improvement in education programming at band-operated schools, evaluations also provide the department with an opportunity to assess and monitor required improvements in band-operated schools' education programs. No reference is made in Program documentation in regard to school evaluations addressing the overall Program objective of the comparability of education programs.

Different formulas are used in each region to determine the amount of funds to provide for school evaluations. In addition, while the Program Ts&Cs refer to the cost of school evaluations within the Program component Instructional Services in Band-Operated Schools, most regions fund school evaluation costs through the New Paths program. Accordingly, non-core (or targeted) funds are being used to support these activities rather than core-funds.

All regions provide funding for the implementation of school evaluation recommendations. Some regions provide these funds on a formula basis, however, rather than taking into consideration the extent to which recipients require funding based on the nature of the actual recommendations.

No systematic process has been established (by HQ or by any of the regions visited) to ensure that the recommendations identified in school evaluations are implemented. While regions often provide funding for the implementation of recommendations, regions do not have processes for tracking the progress that First Nations are making in the implementation of recommendations. This finding is consistent with the findings of the 2000 and 2004 Audit Reports of the OAG.

Internal Audit is of the view that school evaluation effectiveness is limited by the lack of a clear direction on the overall purpose of school evaluations and the lack of national guidelines. Internal Audit is also of the view that the department has an obligation to ensure that program funds are expended effectively through band-operated schools, such as monitoring steps taken to improve band-operated school programs. Finally, Internal

Audit is of the view that the use of New Paths funds to cover the costs of school evaluations takes away from the funds available to support the intended objectives of the New Paths program.

Procedures to ensure that the amounts disbursed to recipients for provincial tuition fees are consistent with the amounts paid out by recipients are not sufficiently robust

One of the main components of the K-12 Program is Instructional Services in Provincial Schools. Disbursements to recipients for this component totaled \$266.3M in 2007/08 (excluding amounts disbursed to CFNFA holders as all funding to these recipients is combined under one funding code). The majority of the funds disbursed to recipients for Instructional Services in Provincial Schools is for provincial tuition fees (\$243.9M). Provincial tuition fees are disbursed to either First Nation recipients or to provincial education authorities and cover the cost of First Nations students living on reserve and attending provincial schools.

The Program Ts&Cs require that provincial tuition fees be disbursed to recipients as Contribution funds. As such, regional offices are required, on a recipient by recipient basis, to ensure that Program spending is limited to eligible expenses. To the extent that a recipient does not spend all funds received, the surplus funds are to be recovered by the department. Conversely, and unique to provincial tuition fees, any deficits that exist are to be subsequently funded by the department. In support of these requirements, an annual reporting requirement has been established requiring that recipients submit: 1) a list of those First Nations students attending provincial schools and 2) copies of school board invoices in support of provincial educational services rendered. This report is called the Provincial-Territorial Educational Services (P-TES) Report and is to be submitted annually as per the department's *Recipient Reporting Guide*.

It is not evident that the provincial tuition review process operates in an efficient and effective manner in all regions to ensure that the amounts paid to recipients represent the actual costs incurred by recipients. Different regions have different processes for verifying the appropriateness of amounts paid to recipients, ranging from one staff person being responsible for the review of all P-TES reports received by the region, to another region having Funding Services Officers (FSOs) conduct these reviews, to another region not requiring P-TES reports at all (electing to rely on provincial tuition fee schedules provided in annual audited financial statements). While the scope of the audit did not allow for extensive sampling of P-TES reporting or the testing of regional verification processes, the P-TES reports that were reviewed and filed in First Nations Inuit Transfer Payment system did not always reconcile to the funds disbursed to the recipients per OASIS. In one instance, the audit noted that a recipient's P-TES report exceeded 200 pages, calling into question the level of review that could be expected of the regional staff person.

Regional processes for budgeting, administering, and verifying provincial tuition fees lack consistency and the regions visited would benefit from a consolidation of the better practices that exist in each region. By way of example, one region has established a practice whereby provincial tuition fee funding is disbursed, on an advance basis, three times a year. Distribution of the second and third advances, however, does not occur until the prior advance has been reconciled. This allows the region to make ongoing adjustments to advances in order to minimize funding shortages or overages at year end.

Internal Audit is of the view that the magnitude of provincial tuition fee funding merits the need for a formalized and established process, employed across all regions, that ensures that support for recipient expenditures is adequately reviewed and reconciled with disbursements to recipients.

Recommendation:

3. The Director General, Education Branch should, in conjunction with Regional Directors General, conduct a review of school evaluations in terms of the support they provide First Nation recipients, for the improvement of band-operated school effectiveness, and INAC, for assessing and monitoring band-operated school effectiveness. The results of such a review should ensure that the purpose of school evaluations is clearly defined and well understood, and that processes are consistently applied.
4. The Director General, Education Branch should, in conjunction with Regional Directors General, assess the adequacy and completeness of regional processes for ensuring that local education agreements/tuition agreements are in place between First Nation recipients and provincial school boards and that provincial tuition fee disbursements to recipients are appropriate. Based on this assessment, an action plan should be developed that identifies changes and corrective actions required, how and by whom action will be taken, and time frames for completion.

7.2.2 Program Management

Appropriate performance measures, results indicators and targets are not currently in place to measure progress toward achievement of the stated program objective

In order to ensure the achievement of program objectives, it is important that clear and appropriate performance measures, results indicators and targets be developed. Sound performance measures allow management to track progress, measure results, and make ongoing program adjustments to improve results and achieve objectives. The performance related data that are currently captured and accumulated with respect to the Program are obtained through reports submitted by recipients (per INAC's *Recipient Report Guide*) as follows:

- an annual Nominal Roll Student Census Report – identifying all students residing on-reserve or Crown land enrolled in a band-operated, provincial or federal elementary or secondary school on September 30th of each year;
- an Annual Education Staff Information Form – providing information on teaching and non-teaching staff in regard to their years of experience and years at the school, qualifications, and whether teachers have obtained their Provincial Teacher Certification; and
- school evaluation reports - evaluations of band-operated schools are to be completed every five years and include a review of school curriculum, an assessment of the quality of instruction offered, and an assessment of whether community and school objectives are being met.

Program reporting requirements do not provide performance data to assess progress toward the stated Program objective of comparability of education programs in band-operated schools with those of provincial schools. While the Nominal Roll System (NRS) captures and accumulates annual enrollment data and allows Education Branch to conduct certain analysis on student advancement and graduation, it is used primarily to determine Program funding levels for recipients. NRS data does not allow the Education Branch to assess the comparability of band-operated programs. Nor does the Annual Education Staff Information Form provide information on program comparability. It does, however capture information on the provincial certification levels of teachers in band-operated schools (consistent with the notion of comparability). Finally, while school evaluations are to assess program curriculum and the quality and standards of instructional services, they do not require that provincial comparability in the education programs of band-operated schools be assessed.

It should be noted that in 2008/09, TBS approved an Education Branch submission for funding to support the implementation of new accountability initiatives in Education programs, including the development of new performance measurement systems. While provincial comparability was cited as one of the three “critical issues required to reform First Nation education”, the submission states that the department will be returning to Cabinet in 2011/2012 with subsequent reforms focused on comparability.

Internal Audit is of the view that the Program data being captured needs to be improved to allow the department to properly measure and assess progress toward the achievement of the Program objective, and to make ongoing program adjustments to improve Program results.

There is a general lack of Program planning, support and guidance provided on the part of HQ to help ensure effective Program delivery

The roles and responsibilities of HQ are defined in various draft documents prepared by Education Branch over the past few years, as well as in its Results-based Audit Framework prepared in May 2008. These roles and responsibilities include, but are not

limited to, conducting policy and legislative analysis and review, developing program strategies, preparing national program guidelines, service delivery standards, and funding allocation methodologies, issuing compliance directives, establishing guidelines and standards for performance measurement and reporting, reviewing performance trends, identifying emerging needs and issues and instigating remedial action as necessary, and providing support and guidance to regional offices.

The Program planning, support and guidance provided by HQ does not adequately support Program delivery. The audit noted the following in regard to the lack of support being provided by HQ in this regard:

- regional staff would benefit from updated program guidelines, providing more complete direction regarding school evaluations and provincial tuition fees processes
- no K-12 Program policy exists to, among other things, define funding formula requirements and parameters for the various components of the Program
- no national or regional annual and/or long-term plans have been developed in an effort to establish and prioritize operational activities for HQ and the regions
- roles and responsibilities for HQ, the regions, and recipients have been drafted and circulated to the regions, but have not been validated and finalized
- no review of human resource requirements has been conducted by HQ to ensure that compliance and other required activities are possible at the regional level
- while the band-operated school funding process was identified by the Education Branch as requiring revision, no recent changes are evident with respect to the funding formulas employed by the regions
- no risk management process has been established by HQ, and only recently was a risk assessment conducted, in consultation with Financial Planning, Analysis and Estimates, that considered all education programs managed by Education Branch
- no directive has been established to define required compliance activities in relation to CFNFA holders, despite the fact that Education Branch's 2005 *Compliance Directive* stated that a working group had been established to develop a CFNFA compliance directive by 2006/07
- there has been limited progress toward the achievement of management action plans in response to past audit and evaluation report findings and
- the Program's Management Framework and Policy Framework, as committed to in the Branch's April 2005 Education Action Plan, have yet to be finalized.

It is the view of Internal Audit that the lack of adequate guidance for, and in support of, Program delivery, on the part of HQ, negatively impacts Program efficiency and effectiveness.

Monitoring of regional compliance activities is not being conducted by HQ and HQ has not established regular reporting requirements in regard to compliance review findings

Program monitoring, particularly in a large, decentralized organization like INAC, should consist of sufficient review and oversight, conducted on a timely basis by program management at HQ, to promote the achievement of program objectives and to identify issues for resolution. In its May 2008 Results-based Audit Framework in support of the K-12 Program (as well as other programs), the Education Branch describes this responsibility as the need to “monitor implementation and regional management of the management control framework for education programs and services”.

While a variety of compliance related requirements have been defined by HQ for regional offices, HQ has not established any formal activities to ensure that regions are adhering to these requirements. As noted previously, in October 2005 the Education Branch established the *Compliance Directive* for CFAs. The directive details the compliance activities to be performed by regional offices in regard to all education related programs. For the K-12 Program, the directive refers to 6 separate areas for compliance review including: Nominal Roll review, comparable education standards, tuition agreements, tuition rates, eligible expenditures (and maximum amounts payable), and school evaluations. No formal compliance monitoring activities have been performed by HQ to determine whether regions are adhering to this directive.

In addition, HQ has not established any annual reporting requirements to ensure that the results of regional compliance monitoring are collected and analyzed to assess program performance and effectiveness. The *Compliance Directive* states that “on an annual basis, regions (will be) required to report to Headquarters on specific compliance activities for the education programs”. This type of reporting would provide useful information in support of Program decision making and assist in identifying where regions may be having difficulty adhering to established compliance requirements. No such reporting requirements have been established, however.

It is the view of Internal Audit that greater due diligence is required on the part of HQ in the oversight of regional office activities to determine whether regional activities are in compliance with Program Ts&Cs, guidelines, and directives. It is also the view of Internal Audit that regional reporting on compliance related activities and findings would provide important information on Program performance.

Recommendation:

5. The Director General, Education Branch should enhance the Program’s existing performance measurement framework to ensure it properly measures and assesses progress toward the achievement of the Program objective of comparability of education programs in band-operated schools with those of provincial schools.

6. The Director General, Education Branch should, in conjunction with Regional Directors General, establish and articulate the roles and responsibilities of HQ in regard to the provision of support and guidance to regional offices for Program delivery and the monitoring of region offices in regard to Program implementation. An action plan should then be established to support the implementation of these roles and responsibilities.

7.3 Agreement Monitoring and Reporting

Agreement monitoring and reporting includes those activities, conducted by regional offices in the case of the Program, to ensure compliance with program terms and conditions and with funding agreements.

7.3.1 Financial Reporting

Financial information provided in the audited financial statements of recipients does not always allow for adequate consideration of whether Program funds were spent for the intended purpose

The *Year-End Reporting Handbook for First Nations, Tribal Councils and Political Organizations (YERH)* provides First Nation recipients with direction in regard to their financial reporting requirements. The *YERH* requires that recipients provide the department with audited financial statements on an annual basis and that recipients prepare separate schedules (unaudited) of revenue and expenditures for all Contribution funded programs and services specified in their funding agreements. This requirement is intended primarily to ensure that reporting on programs funded through Contributions is segregated, or separated, from programs funded through Flexible Transfer Payment (FTP) or Alternative Funding Agreement (AFA) funding authorities.

Financial reporting of Program expenditures does not always allow for the adequate consideration of eligible expenses and/or possible Program surpluses. The majority of the funds disbursed under the K-12 Program are funded under FTP or AFA authorities. As such, recipients are not obliged to provide separate schedules of revenues and expenditures in regard to Program funds. Nevertheless, virtually all of the recipients sampled during the conduct phase of the audit provided some degree of financial reporting with respect to the FTP components of the Program. Unfortunately, the schedules did not always allow for adequate assessment of whether Program funds had been spent for the intended purpose, as they sometimes combined funding received from different components of the K-12 Program or even funding from other education programs. In addition, contrary to the *YERH*, schedules sometimes combined education related FTP and Contribution (targeted) funding.

Internal Audit is of the view that the current form of financial reporting of Program revenues and expenses by recipients does not allow the department to adequately assess

whether Program funds have been spent for the intended purposes or whether Program surpluses exist.

There is a lack of involvement of Education personnel in the Audit Review process as it relates to the K-12 Program

The information provided in the annual audited financial statements and separate schedules is subject to an “Audit Review” process by regional office personnel. The purpose of the Audit Review process is to determine the overall financial position of the recipient as well as to assess compliance with the terms and conditions of the funding agreement. In general, Audit Reviews are conducted by the FSO assigned to the recipient, with assistance from regional program staff, depending on the specific programs under which the recipient has received funding.

Internal audit is of the view that education staff in the regions visited do not have sufficient involvement in the Audit Review process. While Education staff in the regions are involved in the Audit Review process to varying degrees, their involvement is typically limited to a review of spending in regard to the targeted programs. Internal Audit expected to find that Education personnel were involved in the review of Program revenue and expenditure schedules to determine, to the extent possible: whether reported expenditures were eligible, whether Program surpluses or deficits existed, whether the information that is submitted is complete, and whether the schedules identify any anomalies in the information provided. Education personnel are not fulfilling such a role in the Audit Review process. FSOs interviewed in the regional offices generally advised that since recipients of FTP funded programs have the authority to retain unexpended funds, assuming minimum program requirements have been met, a detailed review of revenue and expenditure schedules in support of FTP funded programs is not necessary.

Notwithstanding the unique nature of the funding authorities in use at INAC, it is the view of Internal Audit that there is an obligation on the part of regional offices to ensure sufficient due diligence in the monitoring of Program activities and Program spending, and the existence of Program surpluses or deficits.

Recommendation:

7. The Director General, Education Branch should, in conjunction with the Transfer Payments Directorate and Regional Directors General, assess the adequacy of the financial reporting and review requirements of the Program, taking into consideration the department’s obligation to ensure due diligence in the monitoring of Program recipients and that funds have been spent for the intended purposes.

7.3.2 Compliance Monitoring of Recipients

There are shortcomings in the effectiveness of the Nominal Roll Audit review process

NRS is an information database that captures annual census data (student count) on First Nations students living on reserve and attending band-operated, federal, provincial and private schools. One of the primary compliance activities required of regional offices in regard to the K-12 Program is the verification of student eligibility for inclusion on the Nominal Roll (and therefore for funding). As per Education Branch's *Compliance Directive*, the verification of student eligibility is to include both in-office and on-site compliance review activities. Student data that are subject to review as part of the compliance review process includes age, grade, status, residency, program of study and attendance.

While in-office review activities are being conducted as part of the standard process employed by regions for obtaining and entering student data in the NRS, the audit found that on-site review activities performed in the regions do not meet all of the requirements as defined in the *Compliance Directive* and that there are shortcomings in the current process. In regard to the four regions visited during the conduct phase, it was noted that:

- Not all regions are abiding by the *Compliance Directive* requirement that all schools (band-operated, provincial, federal, and private) undergo an on-site review, at a minimum, every three years. This is due in part to the limited time available to conduct on-site reviews (often less than 1 month). On-site reviews can only be completed once Nominal Roll reports have been submitted (October 15th) and have been subject to an in-office review, and prior to the date by which HQ requires finalization of the Nominal Roll (December 15th).
- For schools with low enrollment/attendance (i.e. less than 25 students), regions are not performing on-site reviews, but rather completing mail-in reviews or no reviews at all. Furthermore, in one region, schools with low attendance are only required to submit a declaration of attendance rather than a copy of actual attendance records to support their Nominal Roll reports. The *Compliance Directive* makes no reference to the use of mail-in review processes.
- On-site reviews verify that students are enrolled at the school, live on reserve, were in attendance on September 30th (the census date), and have an acceptable 'pattern of attendance' during the months of September and October. While the *Compliance Directive* allows regional offices to establish the pattern of attendance requirement for their region, the extent to which attendance requirements vary by region seems insupportable. One region required that a student be in attendance 10 days in September and 15 days in October, another required 10 days in each month, another required 40% attendance in each month, and another required one day of attendance in each month.

- Certain regions have found that on-site reviews have resulted in significant downward adjustments to Nominal Roll levels as initially submitted by recipients. All else being equal, such a finding would suggest that additional on-site reviews be conducted, in order to ensure the accuracy of the Nominal Roll data and that over-funding of some recipients is not occurring to the detriment of funding being available for other purposes. However, regions do not typically have staff available to increase on-site reviews in these situations.

Internal Audit is of the view that a lack of adherence to the *Compliance Directive* and a lack of consistency in on-site review activities undermines the effectiveness of the Nominal Roll review process and the accuracy of Nominal Roll data.

Limited monitoring and compliance related activities are being performed by regional offices to ensure adherence with Program and funding agreement Ts&Cs

The TBS *Guide on Grants, Contributions and Other Transfer Payments* stipulates that “Program officers are expected to monitor regularly the progress and activities of recipients of contributions or other conditional transfers”. Internal Audit expected that, in addition to ensuring adherence to the reporting requirements of the Program, the monitoring activities of regional offices would include the conducting of compliance activities consistent with the Education Branch’s *Compliance Directive* and of routine monitoring (site visits, meetings, telephone conversations) to ensure programs and services are being delivered in accordance with the Program and funding agreement Ts&Cs.

Limited compliance activities are being performed in regional offices to ensure recipient adherence to Program and funding agreement Ts&Cs and departmental compliance directives. No compliance activities are underway within the regions to verify whether recipients are meeting the Program delivery standard that requires band-operated schools provide education programs comparable to provincially recognized programs (although some regions are able to place some reliance on work performed by provincial ministries of education in regard to education programming in band-operated schools). As previously noted, not all regions are conducting compliance activities to ensure that recipients have entered into tuition agreements with school boards; that Program expenditures as reported by recipients are eligible; and that the recommendations of school evaluations are being implemented.

Planned or organized monitoring of Program recipient performance, such as the completion of regular site visits, is also not occurring. In the regions, only a limited number of Education personnel are assigned to the main components of the K-12 Program (band-operated school instructional service and student support services) or to specific recipients as a means of monitoring such Program components.

It is the view of Internal Audit that the degree of monitoring and compliance review activities being employed by regional offices is insufficient to ensure compliance with Program and funding agreement Ts&Cs.

Recommendation:

8. The Director General, Education Branch should, in conjunction with Regional Directors General, determine the appropriate and essential compliance and monitoring requirements of the Program and establish an acceptable approach for meeting these requirements. Consideration should be given to the appropriate level of staffing required and the need to update Program documentation to reflect any changes made to the requirements.

7.4 Targeted Program Components

The scope of the audit included, to a more limited extent, three “targeted” program components designed to support the K-12 Program. These components included New Paths for Education (New Paths), Teacher Recruitment and Retention (TRR), and Parental and Community Engagement Strategy (PCES), funded in the amount of \$42.4M, \$5.0M, and \$4.7M respectively in 2007/08.

7.4.1 Program Design

The Program Ts&Cs provide no details with respect to the requirements of the target programs

The TBS *Policy on Transfer Payments (2000)* states that departments must obtain TBS approval of the terms and conditions of all contribution programs. The TBS *Guide on Grants, Contributions and Other Transfer Payments* further stipulates that program terms and conditions are to include (but not be limited to) a summary of the program or initiative, the type and nature of expenditures considered eligible under the program, and the maximum amount payable to any one recipient. These requirements provide an outline for the preparation of program guidelines and a control framework for the management of the program.

Separate sets of Ts&Cs have not been established for the targeted components of the K-12 Program, nor are particulars provided within the Ts&Cs of the K-12 Program. As a consequence, the objectives of the targeted programs and the type and nature of appropriate, eligible expenses are, in the view of Internal Audit, open-ended, subject to interpretation, and difficult to assess in regard to achievement. While Education Branch has established national guidelines for each of the targeted programs, it is the view of Internal Audit that without sufficient targeted component particulars included in the Ts&Cs of the K-12 Program (or in separate sets of Ts&Cs), the purpose and use of these funds is not adequately defined and approved.

Results of project activities in regard to the target programs are not being consolidated in support of Program success

The TBS *Guide on Grants, Contributions and Other Transfer Payments* states that Results-based Management and Accountability Frameworks, as submitted by departments in support of transfer payment programs, are to support a results-based management agenda, and ensure adequate reporting on results and a sound performance management strategy, allowing managers to track progress and measure results.

The audit found that while final project reports are required of all recipients for all targeted programs, and that standard reporting formats are often used by recipients, project activity results are not being gathered and consolidated to allow for the reporting of basic program results. The audit noted that limited data was required of recipients in final project reports in support of funded activities (such as the number of participants that benefited from the project) and that the data that was reported was not being consolidated and provided to HQ to allow for reporting on the use of Project funds and assessing the achievement of targeted components objectives.

Internal Audit is of the view that the lack of basic performance data in regard to the three targeted programs restricts HQ's ability to report on the use of Program funds, to make informed decisions about the targeted programs, and to conclude on the success of the three targeted programs.

Recommendation:

9. The Director General, Education Branch should, in conjunction with the Regional Directors General, review the design elements of the targeted components of the Program to ensure that terms and conditions are adequately and appropriately defined and that Program results can be demonstrated.

7.4.2 Recipient Reporting and Third Party Delivery

Recipient reporting, along with the limited compliance work performed by regional staff, does not provide adequate assurance that targeted component funds have been spent for the intended purposes

As noted previously, the TBS *Guide on Grants, Contributions and Other Transfer Payments* stipulates that program officers are to monitor the progress and activities of recipients of contributions or other conditional transfers. In regard to the targeted programs, information is available for monitoring purposes through annual activity and financial reporting. INAC's *Recipient Reporting Guide* specifies that final project activity reports are to be submitted annually for each targeted program and INAC's *YERH* requires that recipients prepare separate schedules of revenue and expenditures for all Contribution funded (targeted) programs.

Activity and financial reports provided by recipients did not always provide sufficient information to suggest that targeted program funds were spent for the intended purpose. Final project activity reports as submitted by recipients did not always describe activities that were consistent with those described in recipients' project proposal. In addition, schedules of revenues and expenditures in regard to target programs did not always provide sufficient detail on the nature of the actual expenses incurred.

Compounding the limited information provided in the activity and financial reports of some recipients, limited review activities are performed by regional offices to ensure that target component funds provided to recipients have been used for their intended purpose. Since targeted component funds are disbursed as Contribution funds, regional staff are required to ensure that the expenses reported by recipients are eligible per the guidelines and that project activities have been performed as intended.

Internal Audit is of the view that, notwithstanding the limited amounts disbursed to some recipients, some form of risk based compliance review work is required to ensure that projects are conducted as planned, consistent with targeted program objectives, and that funds have been spent for their intended purposes.

Shortcomings were identified in the third party delivery of the targeted program components in one region

TBS Policy on Transfer Payments (2000) allows departments to contract third party organizations to administer, manage, and/or deliver grant and contribution programs. In the case of one region visited, administration and management of the target program components is provided by a third party organization (TPO). All targeted program funding is provided to the TPO, which in turn issues calls for proposals, receives and assesses proposals, enters into funding agreements with recipients, disburses funds, and receives and reviews project activity reports. During 2007-2008, the TPO received \$6.1M in funding from the department and disbursed \$5.5M to recipients under the three targeted programs. The balance was retained in support of administration costs of the three targeted programs and other INAC programs. While the TPO was found to have reasonably administration practices in place for the targeted program components, two shortcomings were noted in regard to the funding and reporting processes.

Funding agreements between the TPO and the ultimate recipients failed to include essential contractual requirements. Funding agreements lacked a detailed description of the project being funded, the financial and non-financial terms and conditions attached to the funding, along with the consequences of not adhering to these conditions, a requirement for the recipient to repay overpayments, unexpected balances and disallowed expenses, provisions for the terminate of the agreement, the right to audit the agreement, and defined reporting requirements.

In addition, financial reporting by recipients, and the review of reported financial expenditures by the TPO, were inadequate. As noted, INAC's *YERH* requires that recipients prepare separate schedules of revenue and expenditures for all Contribution funded (targeted) programs. However, recipients that receive funding through the TPO are not obliged to prepare such schedules. As such, any schedules that are prepared on the targeted program components and provided to INAC (as part of annual audited financial statement reporting) are not subject to review by the TPO (or currently by INAC). The TPO only requires that recipients advise on total project expenses, as part of their final project report. No listing or breakdown of these expenses is required of recipients. The TPO does not request supporting documentation for expenses incurred and does not conduct any audits of reported expenses.

Internal Audit is of the view that sufficient TPO monitoring on the part of the INAC regional office is essential to ensure that adequate processes have been established by the TPO for the administration of the target component funds and to ensure funds have been spent for the intended purposes.

Recommendation:

10. The Director General, Education Branch should, in conjunction with Regional Directors General, establish enhanced activity and financial reporting review procedures, to ensure that complete information is received from recipients (such procedures would be expected of all TPOs administering targeted Program components as well). Consideration should be given to establishing a risk based approach to conducting compliance review activities to help ensure that recipients are using targeted Program component funds for their intended purposes.

8.0 Action Plan

The Education Branch accepts the recommendations of the Audit of the Elementary and Secondary Education Programs with the understanding that the Audit Management Action Plan will be aligned with work underway on other current departmental reviews such as the Capacity Development Audit, the Audit of the Quality Management Program and Application of the Intervention Policy, the directives inherent in the new Transfer Payment Policy, Phase Two of the Reforming First Nation Education Initiative, the development of a Recipient Risk Assessment, and work on Resource Rationalization in Regions,. All of the recommendations target program management and will be implemented concurrently, particularly recommendations 6, 7, 8 and 10.

As noted in the Audit and supported by the Audit Management Action Plan, several sectors will share responsibility for effecting changes related to existing departmental policies and practices. The complexity inherent in making changes in some long-standing departmental practices means that this is a broadly shared responsibility involving other sectors, regions, and First Nation recipients. In these cases, longer timelines are indicated.

The Audit Management Action Plan represents a reasoned plan to respond to the recommendations contained in the Audit through actions that will strengthen program management while recognizing the broader considerations outlined above.

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Director General, Education Branch should, in conjunction with Regional Directors General and Resource Management Directorate, assess the funding methodologies currently in place for the various Program components and the impact the global allocation methodology has on the capacity of regional offices to fund the Program.</p>	<p>Education Branch will work with Regional Directors General and the Resource Management Directorate to assess the global allocation methodology, and the consistency of regional funding methodologies currently in place.</p> <p>Regional Operations will take the lead on the assessment of the regional allocation methodologies.</p> <p>The assessment will include an analysis of the education funding pressures as a whole, particularly in light of rising provincial school tuition rates and changes in provincial program delivery approaches.</p>	<p>Director General, Education Branch;</p> <p>Regional Operations/ Regional Directors General/ Regional Directors responsible for Education;</p> <p>Director of Resource Management Directorate</p>	<p>October 2010</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>2. The Director General, Education Branch should, in conjunction with Regional Directors General and the Transfer Payments Directorate, establish an action plan and timeline for instituting appropriate funding agreements between INAC and provincial education authorities.</p>	<p>Education Branch and Regional Directors General are leading work to support the establishment of tripartite Memoranda of Understanding (MOU) with provincial governments and First Nation regional education organizations.</p> <p>These MOUs and/or more robust agreements will contain appropriate tuition and services clauses.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education; Director Transfer Payments and Financial Policy Directorate</p>	<p>A target date will be established in the Implementation Plan for each province /region which will be in place by November 2009</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>3. The Director General, Education Branch should, in conjunction with Regional Directors General, conduct a review of school evaluations in terms of the support they provide First Nation recipients, for the improvement of band-operated school effectiveness, and INAC, for assessing and monitoring band-operated school effectiveness. The results of such a review should ensure that the purpose of school evaluations is clearly defined and well understood, and that processes are consistently applied.</p>	<p>The First Nation Student Success Program has as a key priority the development of School Success Plans. (SSP). For schools implementing the Reform Initiative, the SSP requires clear objectives and an implementation plan to monitor and report on recommended initiatives to be realized over a three year cycle.</p> <p>Education Branch in collaboration with Regional Directors General and First Nation recipients will conduct a review of current school evaluation, processes and guidelines, to assess the potential for strengthening evaluations and/or merging them with School Success Plans over time.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education</p>	<p>Underway</p> <p>October 2010</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>4. The Director General, Education Branch should, in conjunction with Regional Directors General, assess the adequacy and completeness of regional processes for ensuring that local education agreements/tuition agreements are in place between First Nation recipients and provincial school boards and that provincial tuition fee disbursements to recipients are appropriate. Based on this assessment, an action plan should be developed that identifies changes and corrective actions required, how and by whom action will be taken, and time frames for completion.</p>	<p>Education Branch and Regional Directors General are leading work to support the establishment of tripartite Memoranda of Understanding (MOU) with provincial governments and First Nations regional education organizations.</p> <p>These MOUs and/or more robust agreements will contain appropriate tuition and service clauses.</p> <p>Once MOUs/agreements are in place, Regional Directors General will put in place a process to track their implementation.</p> <p>An action plan will be developed based on regional best practices to ensure that a consistent process is established across regions for reconciling the amounts paid in tuition.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education</p>	<p>A target date will be established in the Implementation Plan for each province/region which will be in place by November 2009</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>5. The Director General, Education Branch should enhance the Program's existing performance measurement framework to ensure it properly measures and assesses progress toward the achievement of the Program objective of comparability of education programs in band-operated schools with those of provincial schools.</p>	<p>Education Branch will work in collaboration with the Regional Directors General to enhance the Program's existing performance measurement framework, particularly with respect to the data captured in current reporting, to ensure it measures and assesses progress toward the achievement of Program objectives.</p> <p>This work is currently part of the branch's new Performance Measurement System for Education (PMSE) and will provide the capacity to link financial and non-financial data through INAC's Enterprise Data Warehouse (previously not possible) allowing for improved analysis, evaluation and reporting against school performance measures.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education; Chief Information Officer</p>	<p>As a part of the PMSE project, a performance measurement framework will be finalized by March 2010</p> <p>September 2012 is the forecasted date for the PMSE to be fully implemented</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>6. The Director General, Education Branch should, in conjunction with Regional Directors General, establish and articulate the roles and responsibilities of HQ in regard to the provision of support and guidance to regional offices for Program delivery and the monitoring of region offices in regard to Program implementation. An action plan should then be established to support the implementation of these roles and responsibilities.</p>	<p>As part of continuous improvement of program compliance, Education Branch will work in collaboration with the Regional Directors General to establish and articulate the responsibilities of:</p> <ul style="list-style-type: none"> -HQ in regard to the provision of support and guidance to regional offices and monitoring of Program delivery; and -Regions with regard to a risk based approach to monitoring and compliance. <p>These roles will be clearly articulated in the <i>Compliance Directive</i>.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education</p>	<p>July 2010</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>7. The Director General, Education Branch should, in conjunction with the Transfer Payments Directorate and Regional Directors General, assess the adequacy of the financial reporting and review requirements of the Program, taking into consideration the department's obligation to ensure due diligence in the monitoring of Program recipients and that funds have been spent for the intended purposes.</p>	<p>As part of continuous improvement of program compliance, Education Branch will collaborate with Regional Directors General and the Transfer Payments and Financial Policy Directorate to review the roles and responsibilities of officers involved in financial reporting and analysis. Regional Operations will lead an assessment of the current Audit Review Process to ensure that measures are in place to consider various perspectives on compliance.</p> <p>Taking into consideration the department's obligation to ensure due diligence in the monitoring of Program recipients and that funds have been spent for the intended purposes, the Branch will assess reporting to ensure it provides adequate information, based on risk level, while respecting the directives of the New Transfer Payment Policy.</p> <p>Actions related to the Quality Management Audit will complement efforts made through this Action Plan.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education; Director Transfer Payments and Financial Policy Directorate</p>	<p>October 2010</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>8. The Director General, Education Branch should, in conjunction with Regional Directors General, determine the appropriate and essential compliance and monitoring requirements of the Program and establish an acceptable approach for meeting these requirements. Consideration should be given to the appropriate level of staffing required and the need to update Program documentation to reflect any changes made to the requirements.</p>	<p>As part of continuous improvement of program compliance, Education Branch will work with Regional Directors General to review the current compliance requirements of the Program to determine the appropriate and essential elements and then establish an acceptable risk based approach for meeting these requirements. The exercise on reviewing reporting activities from recommendation 7 will support the actions for this recommendation.</p> <p>The Recipient Risk Assessment Tool, to be developed by Regional Operations, will assist in this exercise. Actions related to the Quality Management Audit will complement efforts made through this Action Plan.</p> <p>A review will be done of the appropriate level of staffing and financial resources required, appropriate timelines, and the need to update Program documentation to reflect any changes made to the requirements.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education; Director Transfer Payments and Financial Policy Directorate</p>	<p>August 2011</p> <p>April 2011</p> <p>April 2011</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>9. The Director General, Education Branch should, in conjunction with the Regional Directors General, review the design elements of the targeted components of the Program to ensure that terms and conditions are adequately and appropriately defined and that Program results can be demonstrated.</p>	<p>Education Branch will, in consultation with Regional Directors General and First Nation recipients, review the targeted components of the education programs to ensure that terms and conditions are adequately and appropriately defined and that program results can be demonstrated.</p> <p>Design elements of the targeted programs will be reviewed during Phase Two of the Reforming First Nation Education initiative.</p> <p>New Paths was audited as part of the audit on capacity development, and the results of this audit will inform this review.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education;</p>	<p>June 2010</p>
<p>10. The Director General, Education Branch should, in conjunction with Regional Directors General, establish enhanced activity and financial reporting review procedures, to ensure that complete information is received from recipients (such procedures would be expected of all TPOs administering targeted Program components as well). Consideration should be given to establishing a risk based approach to conducting compliance review activities to help ensure that recipients are using targeted Program component funds for their intended purposes.</p>	<p>As part of continuous improvement of program compliance, Education Branch will work in collaboration with the Regional Directors General and First Nation recipients to administer the targeted program components consistent with departmental directives. Actions related to the Quality Management Audit will complement efforts made through this Action Plan.</p>	<p>Director General, Education Branch; Regional Operations/ Regional Directors General/ Regional Directors responsible for Education</p>	<p>December 2010</p>

Annex A – Audit Criteria for Main Program Components

Program Design and Approval

1. The funding mechanism(s) in use (e.g. grant vs. contribution, proposal based vs. formula based funding determination) and their associated requirements are the most appropriate given the intended recipients and the objectives of the program.
2. Appropriate analysis is being conducted to determine the minimum amount of recipient funding required to effectively manage the program and to achieve its objectives.
3. Key reporting requirements are established to set minimum baseline data/ reporting standards to ensure that adequate performance and financial information and outcomes are provided.
4. Clear and appropriate performance measures, result indicators and targets are developed to measure and report on the achievement of program objectives and results.

Program Implementation

5. Program policies, procedures and manuals have been established (based on approved terms and conditions) in support of program objectives and provide Regional office staff with the information required to operate within approved terms and conditions and in compliance with TBS policy and the Indian Act.
6. Clear roles and responsibilities have been established for, and agreed to by, Program stakeholders. These roles and responsibilities are in place and have been communicated formally to, and understood by, INAC program staff.
7. Sufficient human resources are available, with the necessary competencies, to adequately managed and administer the Program. Organizational structures within the regional offices appropriately support Program administration.
8. Program and funding service officers understand and are trained (as necessary) in program procedures, the nature of transfer payments, and program and funding authorities.
9. An appropriate analysis is conducted to determine how the program can leverage IM/IT systems (i.e. the Nominal Role System, the National Dashboard, and the new Performance Measurement System being developed) to ensure efficient and effective processes and performance measurement.
10. Supporting tools are developed and provided as required (e.g. risk assessment tools, reporting templates, file management checklists) to assist in the effective and efficient management and monitoring of the program.
11. Appropriate long-term and annual plans are developed that operationalize program objectives.
12. Due consideration is given to the allocation of program funds to Regional offices by headquarters. Further, headquarters is aware of the allocation methodologies employed by the regions and supports any differences in the methodologies.
13. A risk management process is in place to identify, assess, and mitigate program risks, taking into consideration lessons learned.

Program Monitoring and Reporting

14. Performance information is collected and analyzed and results are consolidated (by regional offices and headquarters) to demonstrate program performance and effectiveness.
15. Financial monitoring is conducted, financial information is collected and analyzed, and results are consolidated (by regional offices and headquarters) to demonstrate financial performance of the program.
16. Compliance activities are conducted by program management on a regular and structured basis to assess whether regions/program officers are complying with program policies and procedures.
17. An annual review of program activities is conducted to identify instances of non-compliance to program policies and procedures, with identified instances of non-compliance on the part of regions/program officers or recipients appropriately addressed with timelines for resolution.
18. Policies and procedures, roles and responsibilities, and supporting tools are regularly updated to address lessons learned, with changes to program management practices communicated accordingly.
19. Performance results of the program are accurately reported within the Departmental Performance Report (DPR) and linked to the Department's strategic priorities and the Report on Plans and Priorities (RPP).

Eligibility/Evaluation

20. Established eligibility criteria/requirements and program and funding authorities are understood and followed by INAC staff in regard to funding arrangements (particularly in regard to non-First Nation organizations such as school boards and provincial ministries of education).
21. Education funding agreements exist between recipients, receiving funding from the Department for provincial tuition fees, and school boards, and the agreements stipulate terms of payment and the responsibilities of the parties to the agreements.
22. The amount of funding provided to recipients is based on either an assessment of proposed activities against established criteria or based on an established funding formula that ensures consistent and equitable allocation of Program funds to recipients, based on appropriate funding drivers.

Agreement Development

23. The portion of funding agreements that relate specifically to the K-12 Program (i.e. delivery standards, accountability, and reporting requirements) are developed using Department approved templates, with any alterations justified and approved to ensure alignment with TBS approved program terms and conditions and the Policy on Transfer Payments.
24. Expected statements of Program requirements, with measurable outcomes and results, are explicit in the agreement and consistent with the TBS approved program terms and conditions.

25. Payments schedules are developed in accordance with the Policy on Transfer Payments' Cash Management Policy, including TB approved exceptions and exemptions, and take into consideration the risk associated with non-payment of provincial tuition fees where applicable.

Agreement Monitoring and Reporting

26. Performance results are received in accordance with funding agreement requirements and INAC's Recipient Reporting Guide, and are adequately reviewed to ensure:
 - a. recipients are in compliance with their funding agreements;
 - b. funds are used for the purposes intended; and
 - c. programs and services were delivered in accordance with the terms and conditions of the funding agreements.
27. Financial reports are received in accordance with funding agreement requirements and INAC's Year End Reporting Handbook, and are adequately reviewed (through the regional audit review process) to ensure:
 - a. recipients are in compliance with their funding agreements;
 - b. funds are used for the purposes intended; and
 - c. programs and services were delivered in accordance with the terms and conditions of the funding agreements.
28. Performance of the recipient is monitored through activities such as site visits, meetings, briefings, telephone conversations and analysis of submitted reports. Activities performed are commensurate with the risk level assessed.
29. Recipients of contributions are subject to a formal review or audit of compliance to terms and conditions of the agreement (e.g., recipient audit, quality reviews).
30. Timely feedback is given to recipients regarding monitoring, review or audit findings and actions required to address issues/concerns raised, and follow-up is undertaken to ensure that recommendations for improvement are acted upon by the recipient.
31. Allegations, complaints, suggestions of mismanagement or misuse of K-12 Program funds are forwarded to the appropriate authorities within in INAC.
32. Timely, accurate and meaningful performance and financial information from individual agreements is consolidated and reported back to program management, along with results from continuous monitoring, compliance review, and recipient audits.

Annex B – Audit Criteria for Target Program Components

1. Program terms and conditions are developed that describe program objectives, target recipients, applicant eligibility criteria, eligible expenditures, stacking and cash management principles and other key program characteristics.
2. The amount of funding provided to recipients is based on an assessment of proposed activities (as defined in proposal submissions) against established criteria and the rationale for awarding funding is justified through an appropriate evaluation process and supporting documentation.
3. In those instances where a third party organization is used to deliver the program, due consideration is given to the appropriateness of the evaluation and distribution processes used by the organization(s), as well as the adequacy of reporting by the ultimate recipients.
4. In those instances where a third party organization is used to deliver the program, due consideration is given to the use of those funds retained by the organization(s) to administer the program.
5. Narrative reports are received in accordance with funding agreement requirements and INAC's Recipient Reporting Guide, and are adequately reviewed to ensure:
 - a. recipients (including third party organizations) are in compliance with their funding agreements;
 - b. funds are used for the purposes intended as detailed in their proposal submission; and
 - c. programs and services were delivered in accordance with the terms and conditions of the program component.
6. Financial reports are received in accordance with funding agreement requirements and INAC's Year End Reporting Handbook, and are adequately reviewed to ensure:
 - a. recipients (including third party organizations) are in compliance with their funding agreements;
 - b. funds are used for the purposes intended and consistent with the original project/proposal budget; and
 - c. programs and services were delivered in accordance with the terms and conditions of the program component.
7. Performance information is collected and analyzed and results are consolidated (by regional offices and headquarters) to demonstrate program performance and effectiveness.